FISCAL NOTE

Bill #:	HB17	**Title:**	Change video gambling machine tax rate
Primary Sponsor:	Butch Waddill	**Status:**	As Introduced

Sponsor signature Date

Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2003 Difference	FY2004 Difference	FY2005 Difference
Revenue:			
General Fund	$29,664,130	$41,506,028	$42,699,466
Net Impact on General Fund Balance:	$29,664,130	$41,506,028	$42,699,466

Yes	No		Yes	No	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, a licensed machine owner pays a video gambling machines tax of 15% of the gross income from each video gambling machine.
2. Under this proposal, beginning October 1, 2002, a licensed machine owner pays a video gambling machines tax of 10% of the gross income from each video gambling machine that is on a licensed premises having five or fewer machines. A licensed machine owner pays a video gambling machines tax of 30% of the gross income from each video gambling machine that is on a licensed premises having six or more machines.
3. The impacts of this proposal will generate new revenue to the state general fund of $29,664,130 in fiscal 2003, $41,506,028 in fiscal 2004, and $42,699,466 in fiscal 2005.
4. The above impact in assumption #3 is calculated using a model developed by the Department of Revenue (DOR) using the fiscal 2002 video gambling database provided by the Department of Justice. There are two main assumptions in the DOR's model. First, establishments currently with six to eight licensed machines in use will decrease their active machines to five. Second, the average income earned per machine will decrease for those establishments that reduce their number of machines to five.

5. If this bill passes it will not be feasible for gambling operators to continue to permit as many as 625 machines per year.
6. This proposal has no impact on Department of Revenue administrative expenses.

FISCAL IMPACT:

	FY2003 Difference	FY2004 Difference	FY2005 Difference
Revenues:			
General Fund (01)	$29,664,130	$41,506,028	$42,699,466
State Special (02)	(62,500)	(62,500)	(62,500)
Net Impact to Fund Balance (Revenue minus Expenditure):			
General Fund (01)	$29,664,130	$41,506,028	$42,699,466

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. Passage of this bill will result in a decrease in permit fees distributed to local governments. Under current law ½ of the machine permit fees are distributed to local governments. HB17 will result in a decrease in permit fees paid. Current law provides for a 50/50 split of these fees between the gambling state special revenue account and local governments, the amount local government fees will decrease will be the same as the decrease to the state fund.

LONG-RANGE IMPACTS:

1. Revenue generated from the video gambling gross machine income tax will continue to be greater than under current law.

TECHNICAL NOTES:

1. The estimates provided in this fiscal note could change considerably depending upon how many establishments and machines are using the automated accounting and reporting system (AARS) and the business decisions made by the establishments on how many machines they will choose to have active on their premises in the forecasted period.
2. Basing the increase in tax rates on the number of machines in a location could result in income inequities. On average, locations offering five machines or fewer report less income than those who permit/offer more than five. However, that is the average. There are some locations that permit/offer five or fewer machines who report more income than the average location with six or seven machines.
3. The department of Justice projects that passage of this bill will result in decreased machine permit fee revenue. The department estimates the reduction will be approximately $125,000; $62,500 of which is state special fund revenue. In the last session the department explained that even under current law state special revenue was insufficient to cover current level expenditures. A further reduction would exacerbate the state special revenue shortfall.